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Taiwan Baking Industry 2012

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Product Brief

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Report Highlights:

In 2011, the Taiwan baking sector was valued at an estimated US\$900 million based on the market value of domestic production and imported baked goods. Though the market is maturing, it is progressing toward diversified operations that offer more healthy and sophisticated products. Consumers are becoming more and more health-conscious, increasing the demand for healthy ingredients, such as whole grains, whole-wheat flour, tree nuts, dried/fresh fruits, natural butter, natural sweeteners and cheeses, creating very good opportunities for U.S. exporters.

General Information:

Market Overview

In 2011, the Taiwan baking industry was worth an estimated US\$900 million based on the market value of domestic production and imported finished baked goods. The Taiwan market is maturing, with only a 1.5% compound annual growth rate over the past five years. It is progressing, however, toward more diversified operations that offer more healthy and sophisticated products. Taiwan consumers are becoming more and more health conscious, which is increasing the demand for healthy ingredients, such as whole grains, whole-wheat flour, tree nuts, dried/fresh fruits, natural butter, natural sweeteners, and cheeses. These premium-priced ingredients are expected to accelerate the market value of the Taiwan baking sector over the next several years.

Baked goods in Taiwan are always within arm's reach, thanks to the highest density of convenience stores in the world. Despite being less culturally familiar with Western cuisine, Taiwan has developed first-class pastry chefs that have gone on to win international baking competitions, such as Chef Bao-chun Wu, who won Les Masters de la Boulangerie in 2010 with his walnut and fermented dried lychee bread.

In addition to growing domestic consumption in Taiwan, business partnerships are thriving between China and Taiwan as more and more Taiwanese bakeries or baking-ingredient importers/distributors open branch offices in the mainland. The Taiwan market for baked goods and ingredients, with its potential cross-strait business opportunities plus its increasingly sophisticated consumer appreciation of Western cuisine, is definitely worth a closer look for U.S. exporters.

Composition of the Taiwan baking industry:

Category	Market Value	Products	Data Source	Notes
Domestic production	US\$812 million	Bread, cakes, Chinese cereal products, rice crackers, and other bakery products	Ministry of Economic Affairs (MOEA), trade interviews	MOEA calculates production value of all registered bakeries - assumed to be 65% of total domestic production
Imports (HS code: 190590)	US\$88 million	Bread, pastry, cakes, biscuits, and similar baked products	Global Trade Atlas, trade interviews	Converted to market value - assumed margin of 50% above import value
Total	US\$900 million			

Trends and Opportunities

- The overall production volume of the Taiwan baking industry is projected to grow modestly over

the coming three years. However, the market value is expected to grow faster, reflecting price increases for raw materials and the increasing use of new premium ingredients. Taiwan consumers are increasingly health-conscious, so the demand for health-related ingredients, such as whole grains, whole-wheat flour, tree nuts, dried/fresh fruits, natural butter, natural sweeteners, and cheeses is expected to grow. These premium-priced ingredients are forecast to accelerate the increase in the overall market value.

- Increasingly, Taiwan bakeries and importers are establishing branch offices in China. Savvy Taiwanese businessmen, however, tend to maintain their R&D roots in Taiwan, while consolidating purchases to lower costs and allying with Chinese partners to promote products locally. The popularity of chains like 85° C Cafe has helped to reinforce Chinese consumer preferences for "made-in-Taiwan" products. U.S. exporters can take advantage of such Chinese preferences for Taiwanese products by developing trading partnerships with Taiwan businesses to help smooth the transition to the Chinese market.
- Domestic consumption of baked goods will continue to expand, thanks in part to the growing number of outlets that sell bread and other baked goods, including the ubiquitous convenience stores. Previously, consumers bought bread and other baked goods at traditional bakeries and ate these as a snack. Now, consumers often grab baked goods for breakfast at convenience stores. In the coming decade, consumers will gradually become more accustomed to Western diets and will likely regard bread as a typical part of a meal.
- In the past, bakers were not highly regarded, and the profession was considered suitable only for the less educated. Today, consumers increasingly see bakers as artisans and trendsetters that develop new recipes that make the use of new and interesting ingredients. This phenomenon is attributed to a couple of Taiwanese pastry chefs that won international baking competitions, immediately elevating the industry's overall image. The winning chefs created quality brands, and their namesake products have motivated the local industry to launch similar products, which has driven the demand for premium ingredients.
- Creativity plays a key role in attracting new consumers. Taiwan's millennial generation, aged 18-30, is increasingly being exposed to more diversified cultures, which affect also their dining choices. Unlike their parents who were largely accustomed to Japanese-style soft breads, the new generation is more open-minded toward European-style hard breads, American bagels, and even exotic creative pastries. For example, western style bread has been a mainstream product for many years in bakeries; but now one cafe has put a unique spin on the concept with a bread pudding dessert, which has been a huge success with young consumers. Such creativity has extended from product development to business operation. Bakers have proven to be very perceptive in creating new demand among overseas tourists for existing pastry products. There are also a growing number of hybrid stores that combine bakeries with cafes or beverage bars, offering consumers a diverse variety of complementary products. This strategy has challenged the old concept that bakeries only sell baked goods.

Product Overview

In terms of product portfolio, the market can be divided into bread and pastry segments, which account

for 60% and 40% of the market share, respectively. Because Taiwan was a colony of Japan for fifty years, the baking industry and consumer tastes have been greatly influenced by Japanese culture. Traditionally, Taiwanese consumers have preferred softer breads that have a sweet filling. However, in recent years, some Taiwanese bakers have won international baking competitions and started to introduce European-style hard breads. These products have gained popularity with the younger generation, despite being priced 20% higher than traditional soft breads. Nowadays, product offerings are increasingly diversified.

- **Bread:** Toast or sandwich breads account for 60% of sales. In addition to white bread, there are an increasing number of options in terms of texture, such as germ breads, whole wheat breads, Japanese water roux breads, etc. Domestic bakeries still promote more traditional soft breads, including pineapple buns, red bean buns, and custard cream buns. Savory buns, such as scallion buns and pork floss buns are also perennial favorites on bakery shelves. In the past several years, however, consumers have come to accept hard breads, which have gained a strong foothold, accounting for 10% of sales. This trend is expected to continue. Hard bread usually contains a variety of grains, tree nuts, raisins, and cheeses. However, it has been made slightly softer inside, as Taiwanese consumers still prefer a softer texture.
- **Pastry:** Pineapple cake continues to be the most popular pastry product in Taiwan, thanks to the Taipei city government's successful "Best Pastry Souvenir Competition" marketing campaign. Although there are no official statistics on production value, the most famous bakery, Chia-Teh, reportedly sold a record-high 60,000 pineapple cakes in one day, each worth US\$1. Pineapple cakes are so popular that, during the recent Presidential campaign, President Ma even cited their success in creating additional souvenir markets for overseas tourists. Other mainstream pastry items include mung bean pastry and yolk pastry, which are considered traditional mooncake flavors. As for Western pastry, there is no particular dominant type or flavor since each bakery and cafe has its specialty. In general, however, chocolate, strawberry and vanilla are the most popular flavors. In Taiwan, cheesecake has experienced a small-scale rise in popularity, yet consumers prefer simple flavors, such as cream cheese or mascarpone.

Ingredient Snapshot

The table below illustrates the import volume for typical baking ingredients. However, because these ingredients can be used in many other applications and industries, it is difficult to estimate the percentage used in the Taiwan baking industry.

Product	HS Code	2011 Imports (MT)	Change % 2011 vs. 2010	CAGR % 2008-2011	Key Players
Wheat	1001	1,360,684	+20%	+10%	US (75%), AU (22%)
Wheat Flour	1101	20,150	-2%	-7%	JP (45%), VN (27%), AU (21%)
Butter	0405	18,428	+16%	+19%	NZ (67%), US (3%)

Milk powder (whole fat)	0402.21	31,363	+32%	+23%	NZ (83%)
Tree nuts	0802 0801.32	20,602	-2%	+1%	US (40%), CN (35%)
Dried fruit	0813 0806.20	10,347	-1%	+4%	US (53%)
Frozen fruit	0811	3,313	+8%	+2%	CN (58%), US (12%)
Cheese	0406	22,389	+9%	+12%	NZ (31%), US (23%), AU (22%)
Premixes & Frozen dough	1806 1901.20	27,599	+12%	+11%	US (36%)

Ingredient Close-ups

- **Flour & Wheat:** Taiwan does not produce wheat in commercial quantities and relies on imports for nearly 100% of domestic demand. U.S. wheat held a 75% of market share in 2011 with imports reaching 1.02 million metric tons. The ten largest domestic flour mills meet about 70% of total domestic flour demand and supply the majority of flour to bakeries. The most common types of wheat used in the baking industry are dark northern spring and western white. Due to relatively advanced domestic milling techniques, imported flour accounts for a very small volume - approximately 20,000 tons in 2011, about 45% of which came from Japan.
- **Fats and Oils:** A majority of traditional bakers opt for domestic margarine and shortening due to its lower cost. Despite that, the demand for imported butter grew in volume by 22% in 2011, as the industry becomes geared toward a healthier diet. New Zealand accounts for 67% of the market share for imported butter, due to the success of the Anchor brand in the local baking industry. Anchor has the first-mover advantage and has positioned itself as a butter of high quality through an intensive mass media branding campaign. Taiwanese bakers are convinced of the product's principal advantage--a stable high melting point, which they reportedly cannot find in other brands. Other buying criteria mentioned include fat percentage, water percentage, and cost. Securing market share for U.S. butter requires educational efforts to acclimate bakers to a new product.
- **Eggs:** Nearly 100% of eggs are sourced locally.
- **Milk Powder:** To help ease the pressure of inflation, the Taiwan Ministry of Finance lowered the tariff on milk powder by 50% through August 9, 2012. Whole-fat milk powder is used predominately in baking and is very price-sensitive. According to industry contacts, consistent supply and country of origin are key buying criteria in addition to cost. Because the flavors of Australian and New Zealand milk powder are similar, they can be substituted for each other when there is a shortage. Imports of milk powder from China have been banned since the melamine incident in 2008.
- **Sweetener:** Taiwan's local white sugar dominates the market due to its cost advantage. However, projections indicate that the demand for natural sweeteners, like Trehalose, is likely to

grow, since it is considered to be a healthier alternative to artificial sweeteners.

- **Yeast:** There is not much market differentiation across brands, but the industry is more aware of specific countries of origin, such as France and Belgium.
- **Nuts & Seeds:** Taiwan does not produce any tree nuts. Taiwan's Department of Health, however, has been promoting the concept of eating tree nuts every day for good health, which has helped stimulate tree nut use in the baking industry. Among the many types of tree nuts, almonds are considered the most versatile. U.S. origin almonds account for more than 80% of market share. A variety of almond products, such as powder, paste, and slices, are widely available in the local market and popular with the baking community. Walnuts are considered flavor and texture enhancers in bread making, but are far more expensive and can more easily result in an unpleasant oily burnt smell. Pecans are still relatively foreign to local industry buyers, many of whom assume pecans are substitutes for walnuts. Pistachios are used commonly for decorative purposes due to their greenish color. Hazelnuts, and their applications, are the least familiar to the industry. Country of origin is a key buying criterion, since it assures consistent quality. The USA has built its image as a quality supplier in the trade.
- **Dried Fruit:** In addition to raisins, which are widely used, cranberries, blueberries, and mangos are moderately popular. The United States and China are the two main sources of dried fruit.
- **Cheeses:** Taiwan does not produce cheese in commercial volumes. Over the past three years, Taiwan's imports of cheese have grown by 30%. The increasing demand has been created by the baking industry. Sliced mozzarella is the most popular variety of cheese used in bread making; cream cheese and mascarpone are used most widely in pastry making. In the past two years, American cheddar, Asiago, and Colby have also been recognized by bakers and used for bread.
- **Frozen Dough and Premixes:** Frozen dough and premixes are not popular in the baking industry because bakers give greater consideration to market differentiation. Local suppliers tend to make premixes adapted to local tastes.

Distribution

- The supply of imported baking ingredients is highly concentrated among the top ten importers. Very few of the importers import a full range of baking ingredients with dedicated sales personnel. Most of them are specialized in specific categories, such as tree nuts, dairy products, or food additives. These importers are also each other's buyers for the products they don't import. For example, cheese importers may purchase tree nuts from other importers. Despite the fact that the import business is concentrated among a handful of importers, there is a widely dispersed network of over 100 wholesalers that distribute products to independent bakeries.

Channel Overview

The market can be segmented by store operation styles:

- Independent bakeries: There are an estimated 7,000 independent bakeries, the majority of which are traditional mom and pop bakeries. There are also rising artisan bakeries featuring natural yeast fermentation and European bread. The most common characteristic of these bakeries is that due to their small economic scale, they don't have commercial plants. The baker usually works in the kitchen, right at the back of the store. Most of these bakeries purchase ingredients directly from wholesalers.
- Baker/Pastry shop chains: There are an estimated 50 chain bakery/pastry shops. Unlike franchised bakeries, both the operations and procurement for these shops are centralized. Famous historic chain bakery/pastry shops include Shun-Chen and Kuos. Both have expanded from a single mom and pop bakery/shop to become today's dominant players. Another type of chain bakery is an extension of a food conglomerate such as Wei-Chuan Food Company's affiliated bakery chain, Bread Societe. These bakeries tend to purchase ingredients directly from importers.
- Convenience-store bakeries: There are an estimated nearly 10,000 convenience-store bakeries, including bakeries in 7-Eleven, Family Mart, Hi-Life, and OK Mart. Their products are mass-produced and packaged individually. All of the bakeries serve coffee on-site, which is often bundled with bread or pastry for a breakfast or afternoon-tea. Due to its successful product marketing toward young urbanites (such as single-serving bread), this marketing channel has grown with double-digit gains over the past two years. 7-Eleven has its own R&D team to develop recipes and plants to manufacture bakery products. Given its economic scale, 7-Eleven imports high-volume products directly from overseas suppliers. Other convenience stores may partner with international chefs to create new recipes and outsource production to HACCP-certified plants, which purchase ingredients directly from importers.
- Hypermart and supermarket bakeries: There are estimated 1,500 supermarket bakeries, including Carrefour, RT-Mart, Matsusei, Welcome, and Costco. Their bakery products appeal to price-sensitive consumers and come in large-volume packaging. Except for Costco and Carrefour, which produce most of their own bakery products, other hyper-marts purchase finished baked goods from independent or affiliated plants.
- Franchised bakeries: Franchise operations are not popular in the Taiwan baking industry due to the severe competition from convenience-store bakeries and modest overall market growth. The most famous franchise is 85°C Café (325 stores), which claims to have "affordably tasty pastry". 85°C Cafe has successfully expanded its business to the United States and China.
- Cafe bakeries: Drinking coffee has become very fashionable in Taiwan since 7-Eleven started to market its ready-to-drink coffee, City Cafe, in 2004. Now there is an array of diversified cafes, from high-end or mainstream chains, such as Paul or Starbucks, to various independent Taiwan-owned cafes, such as Boix de Bijoux. The major chains, such as Starbucks (234 stores), contract with outside bakeries or specialized pastry shops to make their baked goods at competitive prices. The independent cafes create unique selling points by making their own signature desserts. Frozen dough or premixes are generally not popular as these are considered undifferentiated. One notable exception is Paul, which imports frozen dough from France and still charges a premium - a retail price of US\$10 per loaf on average. Most of these independent

cafes purchase baking ingredients from wholesalers.

- Foodservice bakeries:
 - Hotel: There are approximately 15 hotel bakeries. In addition to establishing their namesake bakeries, hotels launch seasonal pastry for major occasions. Though their distribution is relatively small, these hotel bakeries are PR experts, shaping market trends at important festivals or holidays, such as marketing healthy, tasty cakes by topping the cakes with tree nuts or fresh fruits for Mother's Day.
 - Restaurant: Taiwan's breakfast market is intensely competitive, with an estimated US\$70 billion market potential. It is common for Taiwan consumers to have sandwiches or hamburgers for breakfast at franchise chain breakfast shops like Mei&Mei, fast food outlets like McDonald's, or any family-operated small breakfast bar. There are specific suppliers providing large-volume and tailor-made products, such as white bread and buns, for these customers.

Winning Strategies

- Be prepared to reach multiple decision-makers:
 - Keep in mind that there are multiple decision makers in the procurement process when approaching importing companies. Product development personnel dominate the final procurement decision, but marketing personnel drive promotional plans, while procurement personnel handle logistics. It is advisable to meet with R&D people to show technical reports along with samples and to approach marketing personnel by sharing successful practices and showing interest in promotional support. Samples are required for testing, and demonstrations are highly recommended.
- Use "pull" influencers to encourage imports:
 - The end-users (bakers) are eager to accept new products but need to know how to apply them and what the benefits are. On the other hand, importers are more cautious about introducing new products due to concerns about product concept protection. It is useful to support importers by helping to educate their customers through in-person visits, hosting seminars, or sponsoring baking competitions and trade show exhibitions. Though this all takes money and time, such support helps new products secure first-adopter advantage.
- Be prepared to adapt for local tastes:
 - Many importers serve both foodservice and traditional bakery channels. Product specifications and packaging requirements are too diverse and complicated for importers' inventory management. Exporters are advised to think of flexible solutions when introducing new products. Premixes and frozen dough may also need to be adapted for the local palate.

For more information on the Taiwan market for U.S. food and agricultural products and advice on partnering with Taiwan-based companies, including those with operations in mainland China, please contact the U.S. Agricultural Trade Office in Taipei: ATOTaipei@fas.usda.gov